A society preoccupied with private production and aggressive sale of consumer goods, however magnificent, is a society that starves its public sector. (Wilensky and Lebeaux, 1958, p. xi)

Governments in all advanced industrial societies today are hard pressed to find solutions to a series of interrelated economic, fiscal, social and cultural problems facing the welfare state. It is not so much a crisis in the sense that it is an acute condition that a neat surgical operation can soon put right, otherwise the whole welfare state edifice will collapse. Rather it is a chronic condition that will persist for some time and the way out will be through protracted incrementalism rather than comprehensive planning. It is as much a political and an ideological as well as an economic problem and its solution will vary, to a lesser or greater extent, between governments of different political orientations.

Governments have always had to face an array of problems of different kinds. What is unique about the present situation is that the number, nature and severity of these problems demand solutions that are often beyond the scope of the traditional forms of welfare provision. It is for this reason that the ever-expanding, universalist and bureaucratically run welfare state of earlier decades is gradually being contained, modified and replaced by new forms of welfare provision.

This chapter attempts to provide first the historical background of how this situation has come about. It, therefore, reviews briefly trends in economic growth, productivity, employment, unemployment and inflation; it documents demographic, family and social trends; it discusses the rise in
public and social expenditure; and it analyses the changing perspectives on the welfare state during the post-war period.

The chapter, secondly, examines the ways which governments have used so far and are likely to use in the future to deal with the major of these problems – reconciling demands and resources in the public sector from both the supply and the demand side of social provision. It summarises the methods governments can use to raise more funds as well as the policies they can adopt to reduce demand for services.

Thirdly, the chapter discusses the main processes in contemporary welfare capitalist societies that pose serious challenges to the volume, sources and nature of welfare provision. These go beyond issues of finance and they coalesce to form a major force for radical change in the nature of the welfare state. They are likely to lead to a welfare state that is very different from both the universalist welfare state of Beveridge and the minimal state of Hayek.

The Post-War Development of the Welfare State

Debates during the past fifty years on the desirability, viability and the future prospects of the welfare state can be divided into two stages, each representing a particular period: the optimistic outlook of the years 1950–75 when the ideas of the broad left were dominant, followed by the questioning and pessimistic approach of 1975–90 when the new right ideology became supreme. Each of these two welfare outlooks was embedded in and was a partial reflection of different socio-economic environments.

The Years of Welfare Optimism, 1950–75

Most industrial societies witnessed a substantial reorganisation and expansion of their social services during the immediate post-war years. It was a welfare reconstruction that was backed by considerable political consensus. The dominant expressed public view was that the state had the economic ability, administrative capacity and the moral duty to provide a range of services that would ensure a National Minimum, as the Beveridge report in the UK, the Marsh report for Canada, the report of the Van Rhijn Commission in the Netherlands and Laroque’s writings in France demonstrate. There was a general desire to work hard, to rebuild and never to return to the economic depression of the 1930s.